TEACHERS' PENSION PLAN

Pension News

INFORMATION FOR RETIRED TEACHERS AND THEIR SURVIVORS SPRING 2007

Pension income splitting could lower tax bill

You may be able to reduce your family's taxes next year by splitting your pension income with your spouse.

A proposed change in federal tax regulations would allow you to allocate up to one-half of your Teachers' pension to your spouse when you complete your annual income tax return, beginning with the 2007 return you file in 2008.

No action required now

"There is nothing you need to do now," said Rosemarie McClean, Senior Vice-President, Member Services.

"We understand income splitting will occur when couples file their tax returns each year. We have no legal authority to withhold less tax from members' pensions in anticipation of this proposed tax break," she said.

Pension income splitting may result in tax savings if your spouse's income is a lot lower than your annual income. For example, if your annual pension income is $45,000 and your spouse earns only $12,000 in pension income, you may be able to transfer $16,500 to your spouse to equalize your incomes and lower your total taxes (see chart page 3).

Income splitting could also allow some high income earners to collect more Old Age Security (OAS), which is clawed back by the government beginning with after-tax income of approximately $63,500.

Income from the Canada Pension Plan (CPP) and OAS would not be eligible for pension income splitting under the proposal, although CPP allows "pension sharing" for couples to equalize CPP payments.

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You may be able to split your pension income with your spouse when you complete your tax return in 2008.

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Are we deducting enough tax from your pension?

March is a good time to get your personal finances in tip-top shape. Once you complete your annual income tax return, you will know whether you paid too much, not enough, or just the right amount of tax throughout the year.

If you're like many retired teachers, you will probably owe the government money when you file your return. The tax we deduct from your Teachers' pension is based on government requirements and information you provided, usually when you retired. Unless you indicated otherwise, we assume your Teachers' pension is your only source of income.

Deducting extra tax

If you have other sources of income, you may want to increase the tax we deduct from your pension. You can do that any time at *i*Access Web, the secure members-only section of our website, at www.otpp.com. The change will take only a few minutes. If you are not registered for this service, consider signing up by calling 416-226-2700 or 1-800-668-0105, or complete the *i*Access Web registration form on our website.

Non-registered members can call or write to request extra tax deductions. We will need your name, social insurance number and the amount to be deducted, expressed either as a monthly amount or a percentage of your before-tax Teachers' pension.

Claiming additional tax credits

If you receive a large refund from the government after filing your tax return, we may be deducting too much tax. You can reduce the tax we deduct from your pension by claiming additional, eligible tax credits. For example, tax credits could apply if you become disabled, turn age 65, support certain dependants or go back to school.

To claim additional tax credits, complete the federal government TD1 form and the Ontario TD1ON, available in the publications section of our website. Both forms detail the types of credits available.

For more information, consult a tax consultant or visit the Canada Revenue Agency website at www.cra-arc.gc.ca.

You can increase the tax we deduct from your pension in the secure members-only section of our website at www.otpp.com.

Find out how we protect your personal information

Recent news reports about hackers breaking into the computer systems of a major retail operator have raised some questions about the security of personal information on the Internet.

"We take the security of our computer systems and the confidentiality of members' records very seriously," said Rosemarie McClean, Senior Vice-President, Member Services.

"Our information technology team has taken the necessary steps to ensure our members' personal information is as safe as possible," she said.

There are also steps members can take to protect themselves.

What we do

- We use 128-bit encryption so your personal information is scrambled as it travels from our computer network to yours.
- Our secure firewall helps prevent unauthorized access to our computer systems.
- We use strict registration and sign-in protocols so only you can access your personal information.
- We do not send or ask you to send confidential information via e-mail.
- We maintain and monitor our computer systems.

What you can do

- Select a unique password that is difficult to guess. A combination of numbers and letters is ideal.
- Keep your password confidential and change it often.
- Install and maintain current anti-virus software, a firewall and anti-spyware on your computer.
- Keep your browser and operating system up to date.
- Log out after you finish each session.
- Do not send or respond to requests for confidential information via e-mail.
- Report any suspicious e-mail or activity about your pension to us.

Pension income splitting

Continued from page 1

More details will be provided after the government introduces legislation for income splitting. Watch for news reports, or visit the Department of Finance website at www.fin.gc.ca or the Canada Revenue Agency website at www.cra-arc.gc.ca.

Pension splitting examples

	Couple 1	Couple 2	Couple 3
Without income splitting			
Member's pension income	$ 50,000	$ 45,000	$ 45,000
Spouse's pension income	$ 0	$ 12,000	$ 24,000
Total federal tax owing	**$ 9,600**	**$ 9,930**	**$ 11,940**
With income splitting			
Member's pension income	$ 25,000	$ 28,500	$ 34,500
Spouse's pension income	$ 25,000	$ 28,500	$ 34,500
Total federal tax owing	**$ 7,320**	**$ 9,020**	**$ 11,940**
Tax federal tax savings	**$ 2,280**	**$ 910**	**$ 0**

Assumptions

- Members and spouses are 65 or older.
- The chart only includes income from the Teachers' pension plan and other eligible pension income.
- Members and spouses will each receive a $7,300 CPP retirement pension and a $5,900 OAS pension in 2007. However, CPP and OAS payments cannot be split under the tax proposal.
- Members and spouses have no other source of income.

Did you know?

- Our oldest pensioner is 106.
- The average retirement age for Ontario teachers is 57 vs. 62 for other Canadians.
- Forty per cent of retirees, or 1,800 members, applied for their Teachers' pension online last year.

$100,000,000,000 and counting...

Bob Bertram
Executive Vice President
Investments

The Teachers' pension fund hit the $100 billion mark on Oct. 24. That's a far cry from the $19 billion Bob Bertram and his team were hired to invest in 1990. From 1990 to the end of 2005, the fund achieved an average annual rate of return of 11.7 per cent and earned $19.3 billion more than the markets returned during the same period.

Here are the key players working on the next $100 billion, and an overview of the portfolios they manage.

FIXED INCOME

Senior Vice President
Sean Rogister
Portfolio size:
About 27% of total fund

OVERVIEW: We invest in the full range of fixed income products and money market securities in Canada and internationally. Primary holdings include government securities in North America (federal, provincial, state and municipal), as well as high-grade corporate bonds. Bonds, as well as money market instruments, provide the pension fund with liquidity to settle investment transactions and, in conjunction with value-added strategies, a regular stream of income to pay monthly pensions.

TOP 5 INVESTMENTS: Canadian government securities, Province of Ontario securities, Highway 407 bonds, inter-bank contracts, and secure corporate loans.

PROUDEST TEAM ACCOMPLISHMENT: Consistently outperforming benchmarks by diversifying opportunities globally.

GREATEST CHALLENGE FACING TEAM: Building a culture that combines strong risk controls with the delivery of stellar returns.

PRIVATE EQUITY, VENTURE CAPITAL, INFRASTRUCTURE AND TIMBER

Senior Vice President
Jim Leech
Portfolio size:
About 11% of total fund

OVERVIEW: Teachers' Private Capital, our private investment arm, is one of the world's largest and most sophisticated pools of private investment capital. We specialize in providing capital for large and mid-cap companies, and venture capital for developing industries, such as biomedical technology. We also provide capital for a growing portfolio of timber and infrastructure assets, including highways, airports, pipelines, ports, water systems and gas distribution networks. We search the world for appropriate investments, putting capital to work in Canada, the U.S., Europe, Africa, Australia and Asia.

TOP 5 INVESTMENTS: Maple Leaf Sports & Entertainment, CTVglobemedia, InterGen N.V., Scotia Gas Networks PLC, and four marine terminals being purchased from Orient Overseas (International) Ltd. (see Fund signs US$2.4 billion infrastructure deal, page 6)

PROUDEST TEAM ACCOMPLISHMENT: Positioning Teachers' Private Capital as a global leader in infrastructure and private equity investments.

GREATEST CHALLENGE FACING TEAM: Acquiring the best assets at the right price in the face of increasing global competition.

SO HOW MUCH IS 100 BILLION?

$100 billion is enough to fund education in Ontario for about eight years.

$100 billion could buy 2.5 billion Canadian Oxford English Dictionaries.

It would take
3,169 YEARS
to count to 100 billion
at a number every second.

$100 billion could buy everyone in the world a $15 gift.

PUBLIC EQUITIES

Senior Vice President
Brian Gibson
Portfolio size
About 27% of total fund

OVERVIEW: We are a shareholder in 1,100 companies around the world. We invest in public equities in three major ways: stock market indexes, actively managed equities, and large-scale strategic investments. We employ a variety of strategies to achieve the best returns possible at the lowest level of risk. We look throughout the world for good investment opportunities, and we make our investment decisions one stock at a time. We have been able to achieve excellent results by taking a longer term view and identifying companies we believe are poised for long-term growth.

TOP 5 INVESTMENTS: Nexen Inc., BCE Inc., Fording Canadian Coal Trust, Maple Leaf Foods Inc., and Macdonald, Dettwiler and Associates Ltd.

PROUDEST TEAM ACCOMPLISHMENT: Starting with a Canadian-only platform in 1999, we have built a global equity investment team that has generated one of the highest rates of return in the world.

GREATEST CHALLENGE FACING TEAM: High stock prices make it increasingly difficult to find investments that will provide above-market returns.

REAL ESTATE

President and CEO
Peter Sharpe
The Cadillac Fairview Corporation Limited
Portfolio size
About 11% of total fund

OVERVIEW: Cadillac Fairview is one of the largest investors, owners and managers of commercial real estate in North America. Assets include about 100 premium retail and office properties or about 48 million square feet of leasable space. A private, wholly owned subsidiary of the Teachers pension plan, the company also oversees investments in real estate companies and international investment funds.

TOP 5 INVESTMENTS: Toronto Eaton Centre, Toronto Dominion Centre, Pacific Centre, Vancouver, Chinook Centre, Calgary, and Sherway Gardens, Toronto.

PROUDEST TEAM ACCOMPLISHMENT: Growth strategy to diversify through international expansion into Brazil.

GREATEST CHALLENGE FACING TEAM: Inflated pricing of the Canadian and U.S. real estate markets has created a challenging investment environment.

TACTICAL ASSET ALLOCATION AND ALTERNATIVE INVESTMENTS

Senior Vice President
Neil Petroff
Portfolio size
About 24% of total fund

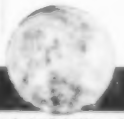
OVERVIEW: Perhaps the most complex portfolio, this group includes tactical asset allocation, U.S. and non-North American equity indexes, foreign exchange, commodities, derivatives, hedge funds and other internally managed alternative investments. The team aims to generate consistent and stable returns in the global financial markets, regardless of the markets' directional movements.

TOP 5 INVESTMENTS: Non-Canadian equity indexes, foreign exchange currencies to hedge non-Canadian equities, tactical asset allocations, commodities, and externally managed hedge funds.

PROUDEST TEAM ACCOMPLISHMENT: Consistent profitability — we haven't had a losing year since 1999.

GREATEST CHALLENGE FACING TEAM: Competition from other investors which emulate our pioneering investment strategies. This means we must constantly find new ways to invest.

Total fund percentage quoted is based on net investments as of Dec. 31, 2005.



$100 billion would earn **$13.7 MILLION** in interest a day, assuming a five per cent interest rate.

If stacked, 100 billion loonies would extend almost halfway to the moon.

$100 billion could buy a $379,000 home for every plan member.

$100 billion matches the combined wealth of Bill Gates and Warren Buffet.

Fund signs US$2.4 billion infrastructure deal

The Teachers' pension fund is buying four marine container terminals for US$2.4 billion. The purchase is the fund's largest investment in infrastructure since it began investing in this asset class in 2001.

The terminals, with combined annual sales of US$500 million, include the main New York container operation on Staten Island, as well as facilities in New Jersey, Vancouver and Delta, B.C. Regulatory approval is pending on the New York facility.

"This acquisition represents solid, robust assets, has little vulnerability to market or economic vagaries, and features a very attractive growth profile that we will support," said Jim Leech, Senior Vice-President and head of Teachers' Private Capital.

The terminals were purchased from Hong Kong's Orient Overseas (International) Ltd. and raise the fund's total investments in infrastructure to more than $7 billion. The fund's international infrastructure portfolio also includes petroleum pipelines, gas distribution networks, power generation facilities, water services, toll roads and airports.

"Infrastructure is an ideal investment for pension plans because it is less sensitive to economic slowdowns and competition, and provides stable, long-term returns, linked to inflation," Mr. Leech said.

Container terminals link sea and land-based transportation. Each of the four facilities comprises a terminal within a port, where containers are loaded or unloaded onto ships, trucks and trains.

Get the lowdown on working after retirement

If you are thinking about returning to work in education, here are five key facts you should know.

1. You may work for up to 95 days in each of the first three school years in which you return to work (these don't need to be consecutive years) and 20 days each school year after that.
2. Each of the first three years you teach uses up a 95-day year, even if you work for only a day.
3. When determining the first three years, do not count any days you worked from Sept. 1, 2001, to Aug. 31, 2006, when a temporary window allowed for extended work in education.
4. Your pension will be suspended if you continue to work past the month in which you exceed the limit and will be reinstated the month after you stop working.
5. The limits apply to work at any school board in Ontario and at most private schools. Other post-retirement work in education may also be affected by the limits.

For more information, including a list of employers covered by the limits, visit the pension info section of our website at www.otpp.com. You can also view an audio-visual presentation on re-employment in the secure members-only section of our website.

You Asked Us

Q *How will the government's decision to tax income trusts affect our pension plan's investments?*

A The decision resulted in an immediate, but not major, capital loss for the pension fund. Remember, the fund is highly diversified so we do not rely on any single investment or asset class to deliver the returns required to pay your pension.

The new taxation policy will be phased in over four years, providing ample time to adjust our portfolio, if necessary, and pursue new investment opportunities.

Income trusts are similar to public companies, but distribute most of their profits to unit-holders as monthly income. The federal government has decided to tax the income distributed to unit-holders to stem the growing number of companies converting to trusts and the perceived loss in tax revenue.

We had about $3 billion invested in income trusts, or about three per cent of the total fund, at the end of 2005.

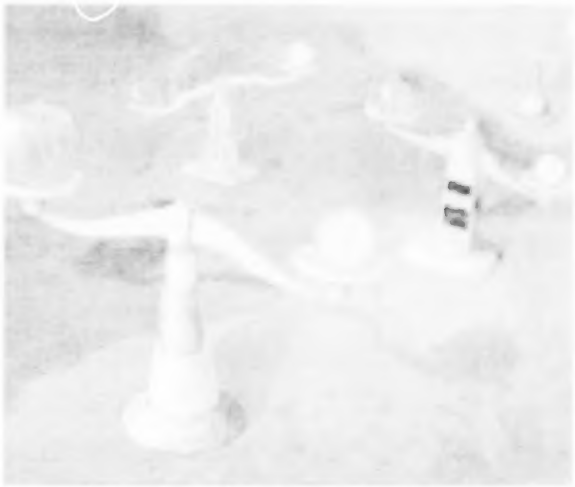
Q *How did the pension plan end up with a funding shortfall when it has more than $100 billion in assets?*

A The pension plan has more than $100 billion in assets and pays retired teachers about $3.6 billion a year. That means it has enough money to meet its pension payroll for many years. But pension plans are required to have sufficient assets today to pay pensions to current members who may be collecting benefits in 50, 60 or even 70 years from now.

The pension plan reported a $6.1 billion shortfall in its last funding valuation in January 2005. That shortfall will be eliminated by collecting higher contributions from the Ontario government and members.

Q *Is another shortfall possible?*

A Yes, the pension plan could report another funding shortfall when it files its next financial review with provincial regulators in 2008. That's because many of the factors that led to the 2005 funding shortfall still exist today, including low real (after inflation) interest rates and the high cost of pension benefits. Rest assured that pensions being paid to retired members and the value of pension benefits earned by working teachers cannot be reduced under Ontario's Pension Benefits Act.



Pension plan assets and liabilities must be balanced over time.

Q *I'm moving to Australia. Can you pay my pension in Australian dollars?*

A Yes, you can receive your monthly pension in Australia in Canadian, U.S. or Australian dollars. Many pensioners find it faster, safer and more convenient to receive their pension in local funds. For more information, consult our *Non-resident pension payments* fact sheet in the publications section of our website at www.otpp.com.

Three new members and chair named to Board

There are three new members and a new chair on the Ontario Teachers' Pension Plan Board.

Mercier

Eileen Mercier is the new chair, replacing Robert W. Korthals who retired from the board after 10 years of dedicated service. Ms. Mercier, who has 35 years of business experience, was appointed to the board in 2004.

Mackenzie

New board member Hugh Mackenzie is an economist with more than 30 years of experience in the public, non-profit and trade union sectors. He runs his own economic consulting business and is a Research Associate of the Canadian Centre for Policy Alternatives. Mr. Mackenzie serves on the Actuarial Standards Oversight Council, the Ontario Pension Board, the Canada Post Pension Plan, and the boards of the Atkinson Charitable Foundation and People for Education. He holds a BA from the University of Western Ontario and an MA from the University of Wisconsin.

Martel

New board member Louis Martel is Vice-President of Product Development and Client Services for Greystone Managed Investments. Mr. Martel has worked as a senior pension and investment consultant for 25 years for major consulting and insurance firms. He is a fellow of the Society of Actuaries, a fellow of the Canadian Institute of Actuaries and a Chartered Financial Analyst. He holds a B.Sc. from Laval University.

Turmel

New board member Jean Turmel is President of Perseus Capital Inc., a position he assumed in 2005 after retiring from the National Bank of Canada as President of Financial Markets, Treasury and Investment Bank. Mr. Turmel is chair of the Montréal Exchange and I Musici de Montréal Chamber Orchestra foundation. He is also a director of Alimentation Couche-Tard Inc., Maple Financial, Canada Post Corp., and Canam Group Inc. Mr. Turmel holds a B. Comm. and an MA from Laval University.

The pension plan's board has nine members who serve for two-year renewable terms. ■

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